FISCAL NOTE

SB 771 - HB 883

February 28, 2003

SUMMARY OF BILL: Requires the calculation of the prevailing wage rate to include fringe benefits for building construction. Rates are to be calculated on an annual basis instead of biennially.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - Exceeds $5,000,000
Increase Local Govt. Expenditures* - Exceeds $5,000,000

Estimate assumes:

1. An increase in state expenditures as the result of including fringe benefits in calculations of the prevailing wage rates for construction. Such rates serve as the minimum amount that can be paid by contractors and would therefore impact bids submitted for state and local government building construction projects. This estimate is based on the following assumptions:
   - According to the Department of Finance and Administration, the average annual building construction cost for the state is approximately $155,000,000.
   - Approximately 40% of that cost is labor, ($155,000,000 x 40% = $62,000,000).
   - On average fringe benefit cost is approximately 25% of labor cost, ($62,000,000 x 25% = $15,500,000).
   - Some individual contractor rates for wages plus benefits may exceed the minimum wage/benefit rate that would be calculated and published, while others may not. Estimate assumes that at a minimum, contractors are currently providing fringe benefits at 70% of the average fringe benefit cost. The increase in state expenditures for building contracts is estimated to be at least $4,650,000, ($15,500,000 x 30%).
   - Calculating the prevailing wage on an annual basis as opposed to biennially will accelerate increases in the prevailing wage rates, averaging 1.5% per year, ($62,000,000 x 1.5% = $930,000), assuming an inflation rate of approximately 3% annually.
2. An increase in state expenditures in the Department of Labor and Workforce Development to determine prevailing wage rates annually instead of biennially.
3. A similar increase in local government expenditures incurred for building construction.

*Article II, Section 24 of the Tennessee Constitution provides that: *no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

James A. Davenport

James A. Davenport, Executive Director